

Flexible Spending Accounts (FSAs)

The Federal Flexible Benefits Plan (FedFlex) allows eligible employees to pay for benefits with pre-tax dollars. The initial FedFlex benefit, Premium Conversion under the Federal Employees Health Benefits (FEHB) Program, was implemented in October 2000. Beginning July 2003, FedFlex was enhanced to include a second pre-tax benefit called Flexible Spending Accounts (FSAs).

FedFlex offers two FSAs:

- *A Health Care FSA (HCFSA)* allows employees to use pre-tax allotments to pay for certain health care expenses that are not reimbursed by any other source and not claimed on the participant's income tax return. Employees may elect to contribute a minimum of \$250 up to a maximum of \$3,000 per plan year.

For more information on which medical expenses may qualify for reimbursement, see IRS Publication 502, Medical and Dental Expenses, available at

<http://www.irs.gov/pub/irs-pdf/p502.pdf>.

Expenses not covered by flexible spending accounts include cosmetic surgery, hair transplants, health club dues, funeral expenses and maternity clothes.

- *A Dependent Care FSA (DCFSA)* allows employees to use pre-tax allotments to pay for eligible dependent care expenses. The minimum contribution to a Dependent Care FSA is \$250 up to a maximum annual reimbursement of \$5,000 (\$2,500 if the employee is married and filing a separate income tax return).

Eligible dependent care expenses can be found in IRS Publication 503, also available at <http://www.irs.gov/pub/irs-pdf/p503.pdf>

Section 125 of the Internal Revenue Code allows employees to pay for certain health and dependent care expenses with pre-tax dollars. As with Premium Conversion, employees may choose to make a voluntary allotment from salary to their FSA account and participants do not pay employment taxes on these allotments. Employees will not be able to pay for long term care insurance premiums or life insurance premiums with flexible spending account money.

Flexible spending accounts reimburse employees for expenses. Employees who elect to participate set aside an annual amount of salary to be contributed to their FSA. The agency will deduct these contributions from the employees' pay throughout the plan year and remit them to the FSA administrator, SHPS, for deposit into the employees' FSA accounts. The accounts do not pay for services up-front. Employees submit receipts to the plan administrator, and they are reimbursed from their flexible spending account, as they incur eligible expenses.

ELIGIBILITY

Employees eligible to participate in the Federal Employees Health Benefits (FEHB) Program (even if not currently enrolled) will be able to elect a Healthcare FSA to cover expenses not covered under their FEHB plan. These expenses include deductibles, coinsurance and copayments, as well as services not generally covered such as dental care and orthodontia.

Federal employees who have a qualified dependent(s) and are other than an intermittent employee whose appointment is limited to six months or less may elect to enroll in the Dependent Care FSA.

If you are an eligible new employee, you will have 60 days (but no later than October 1 of any Plan Year) to make an election to participate in either the HCFSA or DCFSA. If you are hired on or after October 1, you are ineligible to participate in that Plan Year, but can elect an FSA during the annual Open Season. Your election will be official as of midnight on the day you enroll and no changes can be made after that unless you experience a Qualified Status Change, such as a change in family status.

USEFUL INFORMATION

FSA Plan Year- The initial FSA plan year will be a “short plan year” that begins on July 1, 2003, and ends on December 31, 2003. All subsequent plan years will be from January 1 through December 31.

Open Season- After this initial 2003 plan year, employees will make elections to participate in one or both FSAs at the same time as the FEHB Open Season, which begins the second Monday in November and ends the second Monday in December each year.

Benefit Elections- Unlike Premium Conversion, participation in an FSA is not automatic. Employees must make an election each and every year. Employees will make two benefit elections— whether they wish coverage in one or both of the FedFlex FSAs and the annual amount they agree to have deducted from their pay during the plan year for deposit into their FSA accounts. The benefit elections are irrevocable once the plan year has begun, unless the employee experiences a qualifying “change in status” event.

How to Apply- Customer service representatives are available from 9 AM until 9 PM (EST), Monday through Friday, to answer questions and provide enrollment assistance by calling toll-free 1-877-FSAFEDS (372-3337). Employees can also make an election via the Web at <http://www.fsafeds.com>. Elections must include our payroll office identifier, and that number is 631798.

Use or Lose- Child care costs are easier to predict than medical costs. In signing up for FSAs, employees need to have a grasp of their normal out-of-pocket costs and a sense of whether they might incur extra dental, vision, or other health care bills over the course of the year. Because of the tax advantages of FSAs, the Internal Revenue Service has strict guidelines for its use. One of

these guidelines is commonly known as the “*use it or lose it*” rule. Put simply, if employees have not incurred enough eligible expenses during the plan year to equal the annual amount they have contributed to their FSAs, they will lose the balance remaining in their accounts when the plan year ends.

Subsequent Opportunity to Participate- After the initial plan year, employees will have an opportunity to make new FSA benefit elections during the FEHB Open Season. FSA benefit elections will then become effective the first pay period of the following year.

Allotments- In order to participate in an FSA, contributions must come from an employee’s salary via an allotment. FSA allotments will be allotments to the agency that are then directed to a fund managed by the SHPS, the plan administrator.

Terminating Deductions- FSA contributions will be deducted from pay at the specified amount until the last day of the last pay period of the calendar year. If an employee terminates employment with the agency, that’s a qualifying “change in status” that allows for termination of coverage in an FSA.

Reemployed Annuitants- Annuitants may not elect coverage in an FSA at this time. Consequently, reemployed annuitants must have their FSA deductions withheld from pay as an employee, not from their annuities.

Federal Income Taxes- FSA deductions are excluded from wages before Federal income taxes are applied.

State and Local Income Taxes- FSA deductions are excluded from wages before most state and local income taxes are applied. Each state and local government, however, makes individual determinations as to whether to allow the pre-tax treatment for deductions under FSAs. At the present time, the following are known exceptions:

- New Jersey and Puerto Rico do not allow for the reduction of taxable income for either FSA deduction.
- Pennsylvania does not allow for the reduction of taxable income for dependent care FSA deductions.

FICA (Social Security) Taxes- FSA deductions are excluded from wages before FICA taxes are applied.

Although Health Care and Dependent Care FSAs provide real tax advantages, they also have important rules and restrictions. Its “*use it or lose it*” provision makes it very important for employees to estimate eligible expenses for the coming year conservatively and plan contributions carefully. Neither account can be “corrected” after the Plan Year begins.

Additional information is available at <http://www.opm.gov/insure/pretax/fsa/index.asp> and at <http://www.fsafeds.com>.